

## **Testimony before the National Commission on the Future of the Army**

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Thank you for the opportunity to testify. The views I will share are informed by my experiences working in the Office of the Secretary of Defense on military planning and operations policy, on Capitol Hill with a focus on defense appropriations, and my experiences leading the policy staff of the National Defense Industrial Association, or NDIA. NDIA is defense industry's oldest and largest association, founded as the Army Ordnance Association immediately following World War I, and today comprised of more than 1,600 member companies and nearly 90,000 individuals from both industry and government.

The questions primarily addressed by this Commission regarding Army force size, structure, and mix are inextricable from questions about what kind of industrial partners will support and equip the Army in the future. Today's U.S. Army is the best in the world for three reasons: outstanding people, realistic and continuous training, and cutting-edge equipment. To remain the best, the Army must have all three.

So it makes great sense for this Commission to carefully consider how to equip the Army, as well as how to man and train it. In addition to properly sizing and shaping our Army, we must also take pains to make sure that our soldiers never enter into a fair fight—that we always maintain our technological edge over any potential adversary.

Unfortunately, our technological superiority is not a birthright. We have invested carefully over decades to become the world's leader in military technology, and without the same kind of careful investments today, we may find that this advantage, taken for granted, slipped away while too few were watching.

This regrettable possibility hearkens back to the founding of NDIA's forebear, the Army Ordnance Association, in 1919. The AOA's founders were disturbed that the United States had to rely on its allies for many of the weapons we used in World War I, and these Association founders were determined to prevent such an occurrence in an uncertain future. Their efforts aimed to mobilize and consolidate a defense industrial base that would serve the United States should she need it again during a future war. Their mission was only partially accomplished prior to World War II, and more completely accomplished during the industrial mobilization of the post-war years.

The dynamics of our defense industrial base have fundamentally changed since that time, but not the need to remain on technology's cutting edge. We work to meet our equipment needs, but we cannot approach industry in the manner of the AOA, or even as we did 10 or 20 years ago.

According to Tom Davis, an NDIA Senior Fellow, in 1961, 16 aerospace and defense companies were among the top 100 companies of the Fortune 500, and they accounted for nearly 30 percent of the Fortune 100's annual revenue. Today, four such companies are in the Fortune 100, and they account for less than 3 percent of its annual revenue. Only 11 companies in the defense marketplace are in the entire Fortune 500. The combined annual revenue of the nation's top defense firms is less than half that of WalMart, and Apple could buy the three largest defense firms with its cash on hand. The defense industry no longer holds its once vaunted place in U.S. and global industry.

The reality of today's marketplace is that U.S. defense spending is dwarfed by global commercial activity. This trend will continue, and this Commission must account for it in any recommendations that address how to equip the Army in the future.

In the words of NDIA's former Senior Fellow, Brett Lambert, today's industrial base is comprised of an extremely diverse set of companies that provide both products and services, directly and indirectly, to national security agencies, including the military. It includes companies of all shapes and sizes around the globe, from some of the world's largest public companies to sole proprietorships to garage start-ups. Some companies deal directly with the federal government, but most act as suppliers, subcontractors, and service-providers in a value chain that leads to prime contractors and is often based far away or, increasingly, in "the cloud." Companies at any tier, and of any size, may supply hard-to-make products that are critical to the systems used by our warfighters.

Some products and services sold by companies in the defense industrial base are unique to defense applications, but an increasing number have substantial levels of non-defense demand or are even sold exclusively on commercial terms such that the supplier may not even know that the product is used in military systems, and likewise, the Department may not know it depends upon a primarily commercial component. While the pace of innovation is extremely rapid in some segments of defense technology, other segments use very mature technologies where dynamic innovation is less important to the Department than long-term sustainment.

In sum, there is not a single defense industrial base. There is a defense market serviced by a diverse selection of companies which span, and often reflect, the greater global economy for goods and services.

This reality has important implications for the Army's management of its suppliers. We can no longer assume that U.S. Government buying power – once predominant and still in the hundreds of billions – will attract suppliers focused on global commercial activity in the tens of trillions.

We cannot afford to create boutique, defense-only solutions in areas where the commercial marketplace heavily invests. No one believes that defense-unique suppliers will make the next iPhone, yet we also know we cannot rely on Apple to make our next generation troop carrier. And still that troop carrier will rely on hundreds of components provided by companies that are primarily commercial and non-defense.

We need an acquisition system that can account for this evolution which will continue to accelerate. It is the Army's acquisition professionals, uniformed and civilian, who will make the individual purchasing decisions that shape the Army's future supplier base. While policies can and should change – and I will describe them momentarily – no policy decision will matter as much as a trained and educated workforce concerned first with accomplishing the mission of obtaining the very best equipment for the troops at the very best price for the taxpayer. So this Commission should focus first on how to train and educate the Army's acquisition workforce to make good purchasing decisions with an eye toward how those decisions will shape the Army's supplier base over time.

Next, this Commission can suggest how the entire Department of Defense, including the Army, can make it easier for the workforce to adapt itself to the global industrial dynamics I have described. Put simply, we need to make it easier to purchase commercial items, and to make it easier to purchase commercial items, we need to buy things the way commercial buyers do – using price comparison and competition, rather than relying on our current system of cost analysis.

Today's acquisition culture inculcates the idea that if one can tally up the costs of production to a supplier, and then include a limited profit, one has secured the best possible deal. Yet the costs of this system over the last several decades suggest otherwise. Further, this approach is anathema to the commercial marketplace, which governs price by the laws of supply and demand without regard for production costs and regularly sees price reductions unheard of in the defense marketplace. The fundamentally different approaches – government and commercial – make it difficult to achieve Secretary Carter's vision of more innovative technology in our supply chain.

Last year, NDIA made some recommendations to help achieve Secretary Carter's goals in our report on acquisition improvement entitled *Pathway to Transformation*. We recommended ingesting "state of the practice" commercial technologies into relevant defense systems, rather than the obsolete commercial parts that still sometimes make their way into new platforms. We recommended broadening the concept of value

beyond a single transaction by tallying cost avoidance through reduced overhead burdens, increased meaningful competition, private investment in research and development, increased access to commercial markets too expensive to create with public funds, lifecycle operations and maintenance, and increased capability. We recommended distinguishing the process of determining an item to be commercial from an evaluation of its price. We recommended improved market research, especially for requirements professionals whose military specifications can drive contracting officers away from commercial solutions. We recommended modernizing the system of obtaining intellectual property from vendors – a key barrier standing between Department of Defense purchasers and commercial suppliers. And we recommended that the Department use state of the art data analytics to gain business intelligence for improved price analysis and negotiation.

Secretary Carter has emphasized the need to get innovative suppliers into the defense supply chain, and rightly so. He does so while still emphasizing the innovation of the military's current supplier base, which includes many of the world's best high-tech companies. For example, it is not for nothing that U.S. defense firms dominate the commercial aerospace market. But we cannot, as we could 50 years ago, assume that the size of our market will always attract the very best suppliers. We must work to make the Army and the entire Department a more attractive buyer by combining our still vast purchasing power with contemporary purchasing practices.

The future of defense industry – global, commercial, and financially complex – is not an option, it is an inexorable fact. How we can enable the Army acquisition workforce to recognize and leverage this reality is the question this Commission can help answer. I hope the dialog today will further that outcome, and I thank the Commission for inviting me to join it.